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The AMERICAN OBSERVER

A free, virtuous and enlightened people must know well the great principles and causes on which their happiness depends. —James Monroe



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Hitler and Il Duce Confer on Problems

Projected Franco-Russian Alliance Believed to Have Led Hitler to Seek Italy's Friendship

PLEDGES AUSTRIAN FREEDOM

But Not Clear How Far Dictators Will Co-operate on European Affairs

It will be necessary to watch future moves on the European chessboard in order to learn the full meaning of the recent Hitler-Mussolini conversations in Venice. This was the one fact which was clear as Il Duce stood in the Lido flying field in Venice and waved his hat in farewell to his departing guest. For two days the dictators had engaged in discussions embracing every phase of the European situation. They talked about Austria, armaments, the League and the efforts of France and Russia to encircle Germany with mutual assistance pacts—the new term for alliances. On all these points they came to rather indefinite agreements, leaving the details to be worked out through the regular diplomatic channels, and perhaps during the course of a return visit which Mussolini has half promised to make to Berlin in the fall.

Discussions Secret

It is not possible to say at the present time just how far Mussolini and Hitler went toward reaching an understanding. Since they are both dictators they are not accountable for their actions to a parliament, and hence were able to keep their negotiations secret. Not once did Hitler call upon the large staff which accompanied him for advice, and Mussolini, as every one knows, makes his own decisions. After the meeting, a vague statement was issued and uncertain interpretations were given to the foreign press by high Italian and German officials. It appears, from these not entirely reliable sources, that the tangible results of the conference were as follows:

1. Hitler has made some concession with regard to Austria. It is reported that the dictators reached an accord "upon a basis of Austrian independence," and that the internal situation in that country should be "restored to normal." Apparently, therefore, Hitler has given up the idea, temporarily at least, of union between Austria and Germany, which project has been so strenuously opposed by Mussolini who does not mind having a strong Germany as a friend but is not anxious to have her as a neighbor.

Various interpretations have been placed upon the words "restored to normal." It has been said that Mussolini has consented to the holding of elections in Austria with a view to establishing a new government which would contain some Nazis and which would not include Chancellor Dollfuss, who is Germany's most sincere enemy in Austria. It is not likely, however, that Mussolini agreed to this. He knows very well that a Nazi-dominated government in Austria would mean that Vienna would take orders from Berlin. All the benefits of union would be realized without the formality. It is more probable that Hitler and Mussolini agreed that the German

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A History-Making Congress

The record of the Seventy-third Congress is such as to lend confidence in the stability and permanence of American political institutions. This Congress, assembled as it has been in one of the critical periods of our history, has left behind a body of legislation which probably surpasses in significance the enactments of any other Congress. The list of the more important enactments of the session which has just closed is most impressive. The record of the special session last spring was equally noteworthy.

But it is not because of the quantity of legislation which went through the mill that this session may be said to give evidence of the stability of our institutions. It is rather because of the demonstrated flexibility of our government. In ordinary times, in times when legislative leadership is particularly strong, or when executive leadership is lacking, the members of Congress take a decisive part in formulating public policy. At the present time, however, conditions are not ordinary. The period is one of stress. The members of the present Congress do not bring to a consideration of the pressing national problems unusual talent. The executive, on the other hand, is aggressive and resourceful. It has the confidence of the public. Under these conditions, the members of the Senate and the House have had the good sense to accept the only legislative leadership which was capable of quick and decisive action. They have fallen in line with executive wishes and have formulated policies in accordance with the president's desires.

This course is not universally popular. It is a very hard thing for Congress to act as to win general acclaim. When it stands out against the desires of a president and insists upon determining legislative policies, it is called obstructive. When it follows presidential leadership, it is called supine. But these times call for quick decisions and resolute action. Centralized and responsible leadership, such as a popular president may offer, can furnish such action. When Congress recognizes this fact and, in time of crisis, surrenders its own prerogatives and strengthens the hands of the president, it is not breaking down our constitutional system of checks and balances. It is rather giving that system a flexibility essential to its permanence. As soon as the economic skies have cleared and conditions become more settled, we may expect a return of congressional initiative. The present acceptance of presidential leadership does not establish a precedent for the subordination of the legislative branch of the government. It strengthens earlier precedents which call for co-operation during periods of national peril.

Peek Makes Report on American Trade

Since 1896, United States Has Sold \$22,645,000,000 More Abroad Than It Has Bought

DEBTS REPRESENT DIFFERENCE

Foreign Nations Have Had to Borrow Money to Bring About Balance

Several months ago, President Roosevelt appointed George N. Peek, who had been head of the Agricultural Adjustment Administration, as special adviser on foreign trade. Since his appointment, Mr. Peek has been studying the various problems connected with our commerce with the rest of the world with a view to finding means by which we may increase that trade. He has recently made a report to the president on the work he has done. This first report, which is only one of a series, is an analysis of America's foreign trade during the last thirty-eight years, from 1896 to 1933. Mr. Peek has undertaken to show just how much business we have done with foreign nations and what the results have been.

The Peek Report

Now, the Peek report is extremely important and interesting, for it explains many things which have not been fully understood by many Americans. It explains, for example, why the nations owing money to the United States on their war debts have defaulted on their June 15 payments. It explains, too, why Germany has recently declared a moratorium on the debts it owes to other nations or to the citizens of other nations. In a word, the report goes a long way in elucidating the economics of trade between nations. Let us therefore look at the report and see just what it means.

In the first place, Mr. Peek tells the president that since 1896 we have sold much more to the other nations of the world than we have bought from them. Our exports of goods since that time have amounted to \$121,250,000,000, while our imports have amounted to only \$84,604,000,000. This means that we have had what is known in economics as a "favorable balance of trade." As a result of this trade, the rest of the world has owed us \$36,646,000,000.

Of course, if we want to get a complete picture of our commercial relations with foreign nations, we must consider not only the purchase and sale of goods, such as wheat, cotton, typewriters, shoes, automobiles and machinery. We must also take into account the sale of services and a number of other items. In fact, we must take into account every single transaction, commercial or financial, which involves the payment of money from one country to the other. Thus we see that when we consider all these other items the amount of our so-called "favorable balance of trade" is somewhat altered.

Since 1896, thousands of American tourists have traveled throughout the world. They have spent money in foreign countries. They have bought goods. They have traveled on foreign ships. They have paid money to foreign hotels and sightseeing companies and railroads. The money

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Notes From the News

Grace Abbott Resigns from Children's Bureau; NRA Has Birthday; Should Housing Be Public Utility? Broadcasts on Government Continue

GRACE ABBOTT, who has served under five presidents in the Children's Bureau of the Department of Labor, recently resigned to become professor of public welfare at the University of Chicago. Her place will be difficult to fill, for she is uniquely equipped to deal with children's problems, having a keen understanding of their needs and desires and a highly sympathetic nature.

It has often been said that the Children's Bureau touches more lives than any other department of government. When it was first established in 1912, the country lacked even statistics about children. There were no records of births or of infant deaths. Now, in addition to possessing a comprehensive record of American children, the concern of the bureau in its children has extended to the health of their mothers and to the employment of their fathers at incomes sufficient to provide decent homes and nourishing food.

The bureau has long fought against child labor; it has made thorough studies of infant health; it was the first government agency during the Hoover administration to compile adequate figures on relief and relief needs; and it was the first agency to call attention to the seriousness of the fact that homeless, jobless boys were wandering over the country. The bureau's pamphlets on proper diet, on matters of recreation, on the care of children in general, are read by thousands of mothers throughout the country.

Under Miss Abbott's stimulating leadership, this department has made itself indispensable to public welfare. While it is regrettable that she will no longer carry on her excellent work in this field, it is gratifying to know that she will be in a position to pass on some of her knowledge and human sympathy to students interested in social problems.

NRA Anniversary

June 16 marked the first anniversary of the NRA. President Roosevelt, in enumerating the favorable results of the NRA, said in effect: It has spread employment through the reduction of hours; it has abolished starvation wages through the imposition of minimum wages; it has prevented unfair practices and ruthless competition; it has established collective bargaining and the right of workers to choose their representatives; it has abolished child labor; it has created nation-wide machinery to set employers and employees to work and to protect the public.

"Before the people of this country accept either preconceived conjectures of ill-informed commentators or the fulminations of minorities which still seek special and selfish privileges," the president declared, "we shall consider the results al-

ready achieved and look forward to greater gains on behalf of orderly progress for honest labor and honest industry. As time goes on experience will remove inequities which appear from time to time—and experience will at the same time point out to the country the names of those who seek unfair advantage over their fellow men."

Housing—A Public Utility?

"It is time that we abandon the idea that housing is a business and accept it frankly as a public utility as we have accepted education, hospitalization, fire and police protection. Housing for the lower-income brackets cannot be obtained under private initiative, even with favorable financing."

Thus reports the Site-Planning Committee of the American Institute of Architects in its annual report. It continues:

The social consequences and the enormous indirect cost to the taxpayer of our failure to provide adequate housing are manifest in every community in the nation as well as in rural districts. The added burden on the taxpayer of a subsidy for housing may well be offset by savings in these other respects.

The high cost of acquiring slum property, either by agreement or condemnation, is a deterrent to low rentals. Any amount paid for land and existing buildings in excess of a reasonable price of the land for housing purposes is a permanent burden on the new tenants, they being obliged to pay for the wastage of the past. In some cases it has been found that four-fifths of the proposed purchase price of the property represents the cost of present structures, all of which will have vanished when the new buildings are started. . . . The question of housing cannot be solved until some answer has been given to the problem of the entire city, and the answer may well be different for every city.

Summer Programs

The "You and Your Government" radio programs, presented by the Committee on Civic Education by Radio, will continue through the summer. They will be heard from 7:30 to 7:45, E. D. S. T., every Tuesday starting June 26, with the beginning of the eighth series entitled "A New Deal in Local Government," over a nationwide network of the National Broadcasting Company. These broadcasts, given as they are by well-known government officials and educators, point out the relationship of government to the people. They consider existing defects in government and methods of eliminating them. Following are some of the topics to be discussed this summer:

Federal Financial Aid to Cities—Saving the Cities—English Local Government—New Fields for Planning—The Tennessee Valley Experiment—Housing and Slum Clearance—Reconstruction in a Metropolitan County—A Suburban New Deal.



—PWA Photo

THE BIGGEST SEWER JOB IN THE WORLD
Allotments from the PWA amounting to approximately \$42,000,000 have been made to the Chicago Sanitary District to complete the District's sewers and sewage disposal works. The project will give employment to 10,500 men for thirty months.



ISSUING THE FIRST DROUGHT RELIEF CHECK

Dr. E. W. Sheets (left), director of the emergency drought service of the AAA, turning over the first check written in the emergency cattle buying program to W. C. Coffey (center), regional director in Minneapolis, Minn.

A Review of Congress

WHEN the members of the Senate and the House vacated their desks on June 18, it marked the end of the second session of the history-making Seventy-third Congress. It was this same Congress that approved such extraordinary legislation from March 9 to June 16 last year to cope with a depression which had already assumed catastrophic dimensions. And while the measures enacted by the second session of this Congress may not have been as urgent as those passed last year, they were nevertheless of vital character.

Instead of curtailing the president's emergency power, as some had predicted, the second session greatly enhanced it. No chief executive in time of peace has ever been vested with authority of like magnitude. Naturally, the game of politics was played as usual during the recent session, particularly by those congressmen (one-third of the members of the Senate and all the members of the House) who come up for re-election in the fall. But at no time was the president's recovery program seriously threatened by congressional rebellion. His major defeats included the refusal of Congress to ratify the St. Lawrence Waterway Treaty and the determination of Congress to restore government salaries to a higher level than desired by him and to provide more liberal benefits for veterans than he wished. However, the president did not make an extended fight on these issues, and he recently made it known that the St. Lawrence Waterway project is still a live matter, inferring that it would be brought up again at the next meeting of Congress.

One of the last acts of the recent Congress was to appropriate approximately \$2,000,000,000 to be used to succor the jobless and the needy during the remainder of the year. This and other huge sums of money appropriated by the two sessions of the Seventy-third Congress calls attention to the rapidly rising national debt. This debt was recently increased to \$27,000,000,000, the highest level in history (previous record was \$26,596,000,000 on August 31, 1919).

The administration and its supporters contend, however, that there is no need for alarm. They insist that the last year's spending spree has been essential to prevent the foundations of capitalism from completely crumbling. Moreover, they point to England, whose natural wealth does not compare with ours but whose national debt has risen to the staggering sum of \$40,000,000. Thus the administration appears, at least on the surface, to be con-

fident that having put more stable props under capitalist institutions, as well as putting more purchasing power in the hands of the masses, private enterprise will gradually come out of its state of coma and begin anew to expand and to furnish employment.

Following is a list of some of the more important measures enacted by the second session of the Seventy-third Congress:

The Jones-Connally Farm Relief Act.

Amended the Agricultural Adjustment Act to include six additional basic commodities—beef and dairy cattle, peanuts, rye, barley, flax and grain sorghums. Appropriated \$200,000,000 out of the Treasury to enable the secretary of agriculture to reduce surplus production of these commodities. The money is being paid to farmers who cooperate with the government. About \$150,000,000 is expected to be returned to the government through processing taxes.

Bankhead Cotton Control Act. Declared it the policy of Congress to balance production and consumption of cotton more effectively. It fixed 10,000,000 bales as the maximum amount of cotton that might be marketed in the crop year 1934-1935. Each state and each farmer are given allotments. A heavy penalty tax is placed on cotton grown in excess of agreements under the AAA. The bill is considered extremely important as it is the first attempt at compulsory crop reduction. Secretary Wallace and other officials of the Department of Agriculture opposed the bill but since more than 90 per cent of the cotton farmers favored this type of legislation, Congress approved it.

Jones-Costigan Sugar Act. Included sugar beets and sugar cane as basic agricultural commodities under the Agricultural Adjustment Act. Divided up the American sugar market among producers in the United States, the American insular possessions and Cuba. Producers in the United States, Hawaii, Puerto Rico and the Philippines will be paid for reducing their output. The money will be raised by placing a tax on processors. The act was brought forth primarily in order to promote economic stability in Cuba. In the twenties the United States furnished a large market for Cuban sugar. The erection of our high-tariff walls and declining sugar prices, however, have played havoc with Cuba's chief source of income; thus the Cuban people have been reduced to a state of abject poverty.

The Emergency Air Mail Act.

Gave (Concluded on page 8)

AROUND THE WORLD

Germany: The German moratorium on all foreign obligations declared on June 14 to become effective July 1 has stirred resentment among the nations to which Germany is indebted, particularly Great Britain. France and the United States. For six months the Nazis will cease payments on all loans, including the Dawes loan of 1924 and the Young loan of 1930, the first of which was made to permit stabilization of the Reich's currency and the second to strengthen the nation's economy when the Young plan for reparations settlements was launched. These obligations have been considered unusually sacred and Germany's suspension of payment has met with severe criticism. The British and the French are devising systems of reprisal—the seizure of German trade balances or the imposition of special surtaxes on German goods. The United States has protested energetically but is apparently not considering retaliatory measures.

The Germans argue that payment became impossible because of the shrinkage of Germany's gold reserve practically to the vanishing point, and because of the nation's steady decline in export trade. They blame other nations for their unwillingness to buy more German goods in order to facilitate the repayment of loans. In reply, it is pointed out (unofficially, of course) that had not the Nazis incurred the displeasure of other countries by their severe persecution of Jews they would have continued to enjoy a favorable balance of trade. The foreign boycott on German goods, which is the direct outgrowth of Nazi policy, is the chief reason for Germany's inability to keep up payments on her obligations abroad. Germany is learning that a nation in her position cannot live unto itself alone.

For some time it has been evident that considerable dissatisfaction has crept into the Nazi ranks. During the early part of the Hitler régime, enthusiasm was easy to promote and there was every appearance of a united front—that is, except for the oppressed enemies. But as economic difficulties increase dissension has become rife. The Nazis are split into right and left wings, the one urging Hitler to become more conservative and the other exhorting him to be more radical. Among the right wingers in the cabinet are Colonel von Papen, vice-chancellor, Baron von Neurath, foreign minister, Dr. Schmitt, minister of economics, Dr. Schacht, president of the Reichsbank, and, it seems, General Goering, premier of Prussia. The left wingers consist of Dr. Goebbels, propaganda minister, Dr. Darré, minister of agriculture, Captain Roehm, minister without portfolio, and Captain Frick.

The dissension was kept fairly well under cover until June 17, when Colonel von Papen delivered a speech criticizing the Hitler government's policies without restraint. He deplored the lack of press freedom, the campaign to regiment the churches, the danger of radical Socialist experiments, the excessive use of slogans, the belief that a people could be united by acts of terrorism, and the tendency to have one political party rule the country. He made a veiled plea for a return to monarchy.

That Colonel von Papen should have been so outspoken has caused much surprise and no end of speculation. Some thought that the vice-chancellor was on his way out of the cabinet and was delivering a parting shot. Others believed that he had persuaded Hitler to pursue a more conservative policy and was speaking with the chancellor's knowledge (although the speech was banned from the German press), and still others thought that he had decided to take open issue with the left

wingers. The last interpretation seems the most plausible. President von Hindenburg immediately came to the support of Colonel von Papen, lending weight to the conclusion that an effort is under way to make Hitlerism more conservative.

* * *

Great Britain: Preliminary naval talks for the 1935 conference were begun in London on June 18 between Great Britain and the United States. In the first conference Premier Ramsay MacDonald presided and Ambassador-at-large Norman Davis was present for the United States. The Japanese were not represented because Ambassador Tsuneo Matsudaira had not received his instructions from Tokyo. The next day, however, Mr. Davis visited the Japanese delegate for a friendly chat in order to avoid giving the impression that the British and the Americans were working together against the Japanese. Needless to say, nothing was accomplished in these opening discussions. There is no present prospect of a solution to the big problem—Japanese demands for naval equality. So far, the Japanese have not indicated that they are prepared to abandon their demands and unless they do the 1935 conference is expected to fail and the result may be a naval race in the Pacific.

* * *

Japan: The latest Far East crisis, involving Japanese threats of reprisals against China over the disappearance of a Japanese vice-consul in Tokyo, has ended in a hearty laugh for everybody except the Japanese. Just as the landing of Japanese troops seemed imminent the missing Mr. Kuramoto was found in a graveyard on the outskirts of Nanking. It appears that, discouraged in his work, he had set out to commit suicide by offering himself to the wolves. But he lost his nerve and was recognized after he had begged food from some Chinese farmers. The authorities were immediately notified and Mr. Kuramoto will be sent back to Japan for mental observation. The chagrin which the finding of the vice-consul must have caused the Japanese is described by the New York *Herald-Tribune*:

What the Japanese were building up around this deflated Kuramoto "incident" was plain to every one familiar with Oriental precedent. While their government was ordering war vessels to Nanking and their consul general there was letting it be known that heavy penalties would be imposed on China if the important Mr. Kuramoto were not returned intact, the Japanese press was reminding the world how the Manchurian adventure followed upon the

murder of Captain Nakamura and citing the action that Japan took in 1900 because of the killing of a legation secretary by the Boxers as a precedent. No mention was made of the languid Japanese attitude toward the outrages at the Nanking consulate in 1927 when Japan was practicing "patient conciliation."

With deputations from the reactionary societies calling at the Japanese Foreign Office, and the officially censored press making all that could be made of the unhappy Mr. Kuramoto, the Japanese nation was being prepared for the fullest possible exploitation of popular feeling whenever the missing man's damaged remains were found. And now, as it transpires, the precious person of Mr. Kuramoto has never been in any serious danger, not even at his own hands, as the persons of most Japanese under such conditions would have been; and that, far from suffering indignities at the hands of the Chinese, he has been the recipient of Chinese peasant charity.

It will be some time before the masters of Japanese policy will recover sufficiently from this setback to find an excuse for the spectacular military action in China which the army—thwarted in maritime Siberia by Red preparedness—craves for domestic propaganda purposes. The Chinese have been seriously worried by this affair and have been at no little trouble and expense in their search for the melancholic Kuramoto; but they will undoubtedly feel now that he was worth it and will forgive him a good deal more readily than his own disconcerted superiors.

* * *

Italy: Whatever may be said of Mussolini's economic policies he must be given credit for his achievements in engineering. The famous Pontine marshes—60,000 acres of swamp land—have baffled Italian rulers from the time of Julius Caesar, when they were perfectly drained. Nero, Pope Pius VI and even Napoleon have started projects to restore the marshes, but for one reason or another all plans failed. It remained for Mussolini to undertake and push through this vast project of reclamation. The magnitude of the task is described as follows by the *New York Times*:

In the whole range of technical history there is no more inspiring story than the restoration of this lost region to prosperity. Under the provisions of the Bonifica Integrale, otherwise known as the Mussolini law of 1928 and calling for the expenditure of 7,000,000,000 lire (\$565,000,000) for public works, the marshes are now almost unrecognizable. Canals have been constructed for drainage and irrigation; pumping and power stations have been erected; woods have been cleared. Within thirteen months the flourishing town of Littoria has arisen on what was once a malaria-stricken area. No longer is the terrain on either side of the Via Appia, which once knew the tramp of Roman legions and the rumble of oxcarts, marked "deserta," as it is on old maps. By the end of 1935 some 5,000 families, representing a population of 50,000, will have settled on land once comparable with the steaming jungles of Africa.



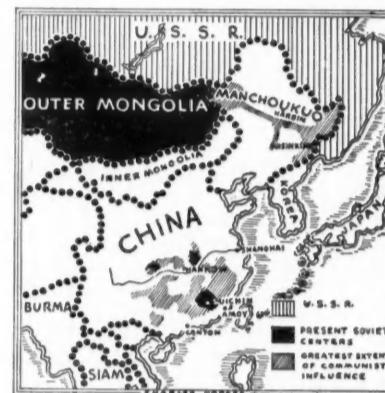
TWENTY YEARS AGO—THE CRIME OF SARAJEVO

The spark which started the World War was kindled on June 28, 1914, with the assassination of Archduke Franz Ferdinand, heir to the Austrian throne, and his wife, by a Serbian nationalist in Sarajevo. The archduke and archduchess were photographed leaving the Senate house shortly before the fatal shots were fired.

It may be that long after he has fulfilled his mission in this world the restoration of the terrible marshes to Italy's arable land will be reckoned among the major achievements of Mussolini. As it is he has to his credit an engineering triumph which must be ranked with the digging of the Panama Canal and the reclamation of the Zuider Zee by the Dutch.

* * *

China: To what extent has Communism obtained a hold on China? We hear reports that from fifty to a hundred million Chinese are under the rule of Communists. From time to time the Nanking govern-



—Courtesy Asia Magazine
RED CHINA

ment issues statements regarding its overwhelming victories against the Communists. But despite these efforts China continues to grow redder. Charles Hodges depicts this situation in the June *Asia*, giving the following account of the proportion of China which is Communist:

It begins on the "pink" fringe of the industrial towns and foreign concessions of the coast cities. It grows redder among the rural masses of Central China. It has a deep Communist dye in what is substantially a sovietized confederation whose center has dominated most of the province of Kiangsi. These openly Communist enclaves, true, are districts surrounded by territory held by Nationalist forces. Nevertheless, the Red zones are strung together with a significant unity of direction that coordinates their opposition to Nanking's supremacy; these are the compact trouble spots on the postwar map of China. Their suppression has been attempted six times by the Nationalist armies without really lasting success.

* * *

France: When affliction visits one country it is likely to extend to another. The United States is far from being the only nation suffering from a severe drought. The catastrophe bids fair to assume worldwide proportions. In France, for example, there has been little rain since the beginning of May. Dangerous forest fires are breaking out and record-breaking temperatures are being recorded. Unless there is rain soon, authorities say, the drought will become a national disaster. In England somewhat the same situation exists. In London a guard is being closely kept on the water supply. A dangerous shortage is feared.

* * *

Cuba: President Carlos Mendieta narrowly escaped death on June 15, when a bomb exploded at a luncheon given in his honor. Two men were killed and a dozen more wounded. The president himself was only slightly hurt. Two days later thirteen were killed and sixty wounded when radicals attacked a parade of the ABC society which has Fascist inclinations. It is believed in Havana that the government will have to resort to the severest measures if civil war is to be avoided. The ABC has declared itself ready for a showdown with Communist and other radical factions which seek an end to the conservative Mendieta government.

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A Busy Week

When Congress adjourned the president was faced with one of the busiest weeks of a busy year. Congress, in its closing hours, passed some fifty public and private bills which had to be approved or rejected by the president. He also was confronted with making a large number of major appointments, the selection of men to aid him in carrying out the powers Congress left with him. The new board or boards to mediate labor disputes had to be selected; a federal housing administrator had to be named to put into effect the various features of the new housing bill; a new board to regulate stock markets and securities was waiting appointment; seven members of the new Communications Commission had to be chosen, to mention only a few of the more important tasks demanding the president's attention.

In addition, Mr. Roosevelt went to Yale to receive the honorary degree of Doctor of Laws; later he witnessed the Harvard-Yale regatta (his third son rowed in the Harvard freshman boat). In spite of this arduous week, the president still planned to leave on his Pacific cruise June 26.

Congressional Hall of Fame

The Washington *Daily News*, a Scripps-Howard publication, calls attention to the achievements of some of the more active members of the second session of the Seventy-third Congress:

Bouquets are due several individual members of the departing Congress. The largest should go to Senator Fletcher of Florida and Representative Rayburn of Texas, those two stanch conservatives who proved radical enough to insist that honesty and fair dealing should dwell in the securities markets of the nation. Against the most powerful and pernicious lobby in recent history, Senator Fletcher kept his sharply divided banking committee at work on the stock market investigation and uncovered the abuses that served as a basis for the market control legislation. Representative Rayburn's brilliant handling of the stock market bill in the House was the most remarkable performance of the session. The Fletcher-Rayburn team won additional laurels by frustrating efforts to emasculate their Truth-In-Securities law, one of the biggest achievements of the preceding session. It is said that Rayburn aspires to the House speakership. He has earned the promotion.

Other bouquets should be awarded: To Senator Wagner of New York for his fight for the labor disputes bill, for unemployment insurance (with Representative Lewis of Maryland) and for the anti-lynching bill (with Senators Costigan and Van Nuys);

To Senator Norris of Nebraska and Representative Rankin of Mississippi for securing passage of a resolution providing for a nation-wide study of electric power rates, and also to Senator Norris for his bold but unsuccessful fight to outlaw patronage politics in the Home Owners Loan Corporation;



OPEN FOR BUSINESS
—Talbert in Washington News

To Senator La Follette of Wisconsin for boosting surtaxes on larger incomes and larger inheritances;

To Senator Couzens of Michigan for able assistance to Senator La Follette in this drive;

To Senator Black of Alabama for uncovering governmental waste and favoritism in ocean mail and air mail subsidies;

To Senator Johnson of California and Representative Summers of Texas for passing the bill which prevents public utilities from escaping rate reductions by dilatory pleas in federal courts.

To Senate Minority Leader McNary for efforts to minimize G. O. P. partisanship.

There was other good work by other men, to be sure, but the performances here listed come to mind without even perusing the session's record.

Soviet Diplomacy

In recent international diplomatic maneuvers there has been nothing more interesting than the moves by which the Soviet Union has brought itself to a position of major importance among the European powers. The *Baltimore Sun* describes this significant development and points out that in the event of another war a number of states will be obliged either to go to the assistance of Russia or to refrain from attacking her:

Seemingly alone of the major European powers the Soviet Union has of late been making notable gains in the diplomatic field. While other countries have been trying to work out new formulas to solve the virtually unsolvable disarmament problem or have been content to stay at home and get ready for war, the Soviet Union has been rounding up allies, actual or potential, and otherwise "improving" its international position.

It has fortified itself along its western frontier with a series of nonaggression pacts with the Baltic states. It is reported that these pacts are now being, or will soon be, displaced by treaties of "mutual assistance," which nowadays is the diplomatic phrase used to describe political alliances. Moscow has also entered into a military arrangement with France, and through France has at long last obtained recognition from Czechoslovakia and Rumania. Recognition by Yugoslavia is expected to follow within a few days.

Most political students are agreed that the Soviet Union will now have little difficulty in persuading these allies of France to enter either into nonaggression pacts or "mutual assistance" treaties. Since virtually all of these countries have somewhat similar connections with still other governments, this extension of Soviet diplomacy to the Little Entente will bring at least half of Europe within the network of the Russian defensive-alliance system, the most notable exceptions being Germany and England.

Moscow has given up trying to persuade the Japanese to accept a nonaggression pact, but has not abandoned the idea of attempting to set up a protective network of treaties in the Pacific area. It has indirectly asked for and in all likelihood will obtain an invitation to the forthcoming naval conference. At this conference it intends, according to dispatches from Russia, to propose a new arrangement covering the Pacific region to take the place of the present Washington treaties, to which it is not a party.

If and when the much-predicted war arrives, a number of states will be under obligation to go to Russia's assistance should Russia be attacked by others, or else will be pledged to refrain from joining any general attack upon the Soviet Union. The Bolsheviks apparently feel that internationalism is all very well in its way, but when one's national territory is menaced one may find more comfort in guarantees of military or other assistance from one's neighbors. Moscow can be old-fashioned.

Why Tugwell Won

Why is it that Rexford G. Tugwell so easily bested his Senate inquisitors in the recent attempt to thwart his appointment as undersecretary of agriculture? The answer is simple, says the Emporia *Gazette*. It gives the following explanation:

Take the average United States senator—where does he come from? He comes out of the courthouse. He is just about the courthouse average in education and intelligence—smart, brash, self-sufficient, more or less vain. And as ignorant of the world in its higher reaches as a hen of a holiday!

All right, shut your eyes and pick out the smartest man you know in the courthouse. Then shut your eyes and think of the smartest Ph. D. you know in any college, under 40, who knows his onions, is soft-voiced and swift in his mental reaction, sure on his feet.

Then, put that courthouse gladiator against that ideal Ph. D. in a controversy in which the strutting yokel knows little or nothing and which the Ph. D. knows—through hard years of study—what it is all about.

Then, you will see why Tugwell won. It was in the cards, in the stars in that phase of character which makes destiny.

The Great Unwashed

The United States has the reputation of being the most advanced nation in the world. But the New York *World-Telegram* points out that a third of American families lack sanitary bathtubs and declares that this should be a powerful argument in favor of the administration's rehousing program:

U. S. Department of Commerce investigators have learned that approximately a third of the families in fourteen small American cities aren't taking baths. They haven't any bathtubs.

If you apply this percentage to the whole nation you get the idea that for some 40,000,000 of us Saturday nights, not to mention other nights, come and go with no particular reference to soap and water.

Our figuring probably is wrong, but at best it looks like a dirty deal for the soap and towel makers. Robert J. Barrett, head of the National Association of Plumbers, calls the bathtub shortage as revealed from the partial figures a "challenge to the nation." Certainly it's a blow to esthetic sensibilities and olfactory. Worst of all, it hurts the national pride.

What will the neighbors say? Here in the great U. S. A., where tariff-protected living standards are supposed to be the highest ever achieved by man, a land of garages and penthouses, of milk and money, do nearly a third of the families lack sanitary bathtubs?

The story of the great American unwashed may make good



BELIEVE IT OR NOT, THIS IS NOT AN EASY ONE
—Cleveland PLAIN DEALER

reading in underprivileged countries of the earth. But here it should provide another potent argument for the administration's rehousing measure.

Who Spends the Most for Arms?

The Senate has a special committee at work investigating the activities of munitions makers. Senator Nye of North Dakota, chairman of the committee, made an important and rather disheartening discovery early in the investigations, according to the St. Louis *Post-Dispatch*:

Senator Nye, who is chairman of the committee investigating the activities of munitions makers, has discovered the identity of the chief offender in the armaments race. It is not saber-rattling Italy or Hitlerized Germany. It is not militaristic France or Japan, whose piles of war supplies, if we may believe the more fantastic reports, are piling up enough weight to sink the isles of Madame Butterfly in the blue Pacific. This darkest villain of them all is none other than the peace-loving United States. Figures show that whereas France increased its military appropriations 30 per cent from 1913 to 1930, and Great Britain, Italy and Japan increased theirs 42 per cent, 44 per cent and 142 per cent, respectively, the United States headed the list with an increase of 197 per cent in the same period. This led the North Dakotan to confess at the annual meeting of the Society of Friends: "It was a sad awakening for me to discover my own country guilty of this thing as the investigation into armament makers began." A sad awakening, indeed. If such a disclosure is a revelation to a United States senator, what must it be to the rest of us!

Will Foreign Trade Be Increased?

Will the new tariff bill result in an improvement in our foreign trade? The Pittsburgh *Press* hopes so but perceives some difficulties:

High tariff advocates consumed a lot of time and a lot of space in the Record (political medicine for the days to come), but finally the Senate has passed the reciprocity tariff bill. Before many months have elapsed, we shall learn whether we have the ability to swap our way back into a fair share of the world's trade.

Because other nations embraced our short-sighted Smoot-Hawley philosophy, world commerce is now so throttled down that the bargaining method offers the only practicable approach. In every quarter of the globe, nations groan under their own unmarketable surpluses.

The reciprocity bill wisely confers upon the president the power to participate in the bargaining that other nations have already started. It means that if world trade is revived, we shall not have to sit helpless amid our surpluses and watch it pass by.

Unfortunately, many of our tariffs are so high that the president's 50 per cent reduction lever will not be sufficient to bring relief to our own consumers. For example: our ridiculous prohibition liquor tariffs, even if cut in half, will still be too high to permit any serious threat against our "bootleggers" paradise."

Senator Gore of Oklahoma has a definition for trade which may be useful to our foreign trade bargainers when they sit down across the table from the bargainers of other nations. Said the senator: "Trade is a process by which two men get what each man wants, both parting with what neither needs and both profiting by what neither loses."

That applies to the disastrous surpluses, here and abroad.

The guilty linotype operator assures us that he really did not intend to set it "League of Nations Sneering Committee."

—Charlotte (N. C.) NEWS

Mary Pickford says she won't run for Congress because she feels she belongs "definitely in the entertainment field." Others go to Congress without leaving that field.

—Owensboro (Ky.) MESSENGER

We would feel better about present statesmen's assurances that their nations will not start war if all other wars had not been between countries simply forced into 'em.

—Dallas NEWS

WITH AUTHORS AND EDITORS

We read old books for their excellence, but new ones to share in the mental life of our time.—SATURDAY REVIEW OF LITERATURE.

Do We Overproduce?

"America's Capacity to Produce," by Edwin G. Nourse and Associates. Washington: The Brookings Institution. \$3.50.

IT WOULD be hard to overemphasize the importance of this book, which is the result of investigations conducted by a number of the country's leading economists. It is an attempt to answer one of the most fundamental and perplexing problems confronting the nation today. Was the United States producing in 1929 all that it was capable of producing with the plant and equipment and man power then existing? Or, put in another way, could we have utilized more fully our productive machinery than we were then doing? This is the central problem with which the specialists are concerned in this volume.

This book, it should be understood, is but one of a series dealing with the general subject of "The Distribution of Wealth and Income in Relation to Economic Progress." Three subsequent volumes will be published by the Brookings Institution within the next six months or so. They will undertake to determine whether we can, as a nation, so organize our economic activities as to raise the standard of living of the people. Specifically, they will attempt to show "whether defective distribution of the national income and consequent inadequate purchasing power among the masses of the people is a primary cause of our economic difficulties; and whether and by what means the economic activities of our people might be organized on a sustained level which would provide ample food, adequate clothing, comfortable housing, and a reasonable minimum of education and recreation for all members of society."

The findings set forth in this first volume are extremely revealing. One of the major conclusions reached by the economists in their investigations is as follows:

Certainly our findings do not bear out the contention of those who, in the midst of the present depression, say that we were living in a fool's paradise in 1929—that we were "living beyond our means," and that disaster had to follow. Individuals, of course, were living beyond their private means as individuals always will in both prosperity and depression. But the nation was not. We were not trenching on our resources of capital goods or of labor power. Equipment was being maintained at a rate entirely suitable to the indefinite continuance of operation at the 1929 rate of activity. There was an unutilized margin which, in the perspective of the past, would appear to be about normal. Labor in general was not being so driven as to impair either health or morale. On the contrary, there was nearly 20 per cent of reasonably available labor which

was not turned into the productive stream. Our economic society lacked almost 20 per cent of living up to its means.

What would have been the result of full utilization of our productive capacity in the late twenties? According to the economists, it would have "permitted of enlarging the budgets of 15 million families to the extent of \$1,000 each. It would have enabled us to add goods and services to an amount of \$765 on the 1929 price level to the consumer gratifications of every family having an income of \$2,500 or less in that year. We could have produced \$608 worth of additional well-being for every family up to the \$5,000 level. Or we could have brought the 16.4 million families whose incomes were less than \$2,000 all up to that level." If, from the production side of the equation, such an improvement were possible, what was there in our economic organization to prevent its realization? For the answer to that and other questions germane to the general subject, we must await the publication of the entire investigation.

Karl Marx

"What Marx Really Meant," by G. D. H. Cole. New York: Alfred A. Knopf Company. \$2.

M. COLE, who has become widely known for his excellent "Guide Through World Chaos," and "The Intelligent Man's Review of Europe Today," sets out in this book to explain the teachings of Karl Marx and to adapt them to the present-day situation. He carefully examines the foundations of Marxism, the growth of capitalism, the realist or materialist conception of history, economic classes, the proletariat, Marxism and the state, the theory of value, and dialectic materialism.

The result is an entirely readable and informative exposition of Marxian theory written in terms understandable to the intelligent layman. While Marxists may contest a number of points in this book—they can never agree among themselves—it remains a valuable introduction to Marx's monumental *Das Capital*.

Europe's "New Deals"

"The New Deal in Europe," by Emil Lengyel. New York: Funk and Wagnalls Company. \$2.

M. LENGYEL attempts a review of what he calls the "new deals" in various European countries—Italian Fascism, German Hitlerism, Russian Communism,



—From a painting by Tyrone for Public Works of Art

IN 1929 AMERICAN PRODUCTION WAS ONLY EIGHTY PER CENT OF CAPACITY, ACCORDING TO THE FINDINGS OF THE BROOKINGS INSTITUTION IN "AMERICA'S CAPACITY TO PRODUCE"

and Sweden's manipulated currency. He seeks to report the facts—to explain clearly and simply what is going on in Europe today. But, unfortunately, in the course of his exposition Mr. Lengyel arrives at certain conclusions which to a large extent vitiate the value of his book. For example, we find this argument that Italy and Germany must be considered practically Communist countries:

Fascist Italy has made laws that can never be linked to capitalism. If Communism denotes a collective effort of the people to replace private initiative by a régime in which society as a whole sits at the control board of economic life, then Mussolini is moving toward Communism. This may seem to contradict the evidence of blood spilled in the fight between Fascists and the Left Wing. But can a system be called capitalism under which a shop cannot be opened without a government license? What has become of individual freedom, when the government can oblige a capitalist to join an association to which he does not want to belong, and compel a board of directors to make certain products or cease turning them out?

Does the red flag fly once more on North Italian factories? It would hardly be out of place if it did, for it would faithfully designate industry's subservience to the state. Nominally the owner is still in control of his property, but his mastery lasts only as long as he suits the government. A manufacturer whom the government no longer can accept may be dislodged from his place by a variety of means, not the least effective being through state control of the nation's money bags. Mussolini has dissociated himself from capitalism in his outspoken style.

If Karl Marx should visit his native Rhine-land from his residence in the great beyond, he might be mistakenly led to think that his Germany was on her way from the capitalism he so intensely disliked toward the Communism whose coming he predicted. Surely, no nation can be capitalist when its government can forbid the installation of new machinery. Where have gone sacred property rights when a factory manager cannot dismiss his laborers or reduce their wages? Can the Reich really have obtained control of the land's largest steel concern, and have become the greatest power in the entire banking field? If such things are neither state Socialism nor Communism, then what should they be called?

The answer is of course that the author has failed to understand the meanings of the terms with which he so freely deals. Fascism and Communism are not the same merely because the economic and political machinery under both are rigidly controlled by a central authority. The purpose of the one is to uphold by force the principle of private ownership and private profit. The other seeks to do away with these main tenets of capitalism and establish a system of public ownership. Would

Karl Marx think Germany is in the early stages of Communism if he could return? Not if he could have a glance at the balance sheets of the Thyssens and the Krupps and other industrial barons who placed Hitler in power.

Interpreting Poetry

"Poetry: Its Appreciation and Enjoyment," by Louis Untermeyer and Carter Davidson. New York: Harcourt, Brace and Company. \$3.50.

THE authors of this book have performed a very useful service in removing much of the "mystery" which, in the mind of the average person, attaches to poetry in any form. Theirs is not merely another anthology of American and English poetry in which poems are classified according to period or pattern or motive. It is an attempt rather to educate the layman whose intellectual efforts have been directed elsewhere so that he may read poetry with understanding and consequently with enjoyment. Such an approach has long been needed, for many of us have long looked upon poetry as something forbidding which is reserved only to the specialist or the enlightened.

There are two main divisions to the book. The first half takes up the various experiences used as material by the poet, such as comedy and tragedy, the human emotions, natural phenomena, the world of ideas—in a word, the whole realm of human experience. After discussing the use of each in poetry, the authors amplify their meaning by abundant citation of poems in each of the categories.

The second half of the book is devoted to structure and technique. It is a discussion of the methods employed by the poet to obtain his effects, to communicate to the reader the emotion or the idea which he wishes to transmit. Attention is given in this section to form and pattern, to the various types of poetry and the rules which govern the construction of each.

John T. Flynn, author of several books and numerous articles on economic subjects, and a close student of the security markets, appraises the new stock market exchange regulation bill in the July issue of *Harper's*. In Mr. Flynn's opinion, the bill, as originally drafted, would have succeeded in curbing most of the abuses of speculation which were revealed by the Pecora investigations. But after its revision and emasculation, he is highly skeptical. The chief hope, Mr. Flynn says, lies in the commissioners who will administer the act. If the proper men are selected by the president, they will be able to eradicate some of the most flagrant abuses. Otherwise, we may expect things in Wall Street to be about as they have been.



ONE OF EUROPE'S "NEW DEALS"—A FASCIST PARADE IN ROME

Hitler's Pilgrimage to Venice

(Concluded from page 1, column 1)

campaign to overthrow Dollfuss is to cease. No more arrogant speeches are to be made over the radio in Munich by Theodor Habicht, Hitler's special agent for Austria. In addition the restrictions which Berlin has placed on German tourist traffic in Austria—notably the 1,000-mark fee on passport visas—will most likely be lifted. Quiet will be restored along the border, and Austria will be strengthened economically through the removal of German pressure. Finally, Germany may in the future enter into some sort of trade agreement with Italy, Austria and Hungary.

Disarmament

2. Germany has agreed to return to the disarmament conference and the League of Nations, provided her right to full equality in armaments is recognized. Mussolini



—News of the World, London
LITTLE DISARMAMENT: "NOBODY LOVES ME I'LL NEVER GROW UP!"

may be expected to make further efforts to pave the way for Germany's return. In the past he has championed the German claim to greater armaments. He will continue this policy, perhaps more vigorously. But the real situation on this problem does not appear to be much changed. Hitler has always said that Germany would go back to Geneva if given equality in armaments. But France will not consent to this, and it is not likely that Mussolini can persuade France to change her mind.

It is obvious that Hitler is seeking a way of returning to the disarmament conference, if he can do so without loss of face. While he was talking to Mussolini, his personal emissary, Joachim von Ribbentrop, went quietly to Paris and talked confidentially to French Foreign Minister Louis Barthou about disarmament. It is understood that he sought to learn the conditions under which France would consent to Germany's return to Geneva. Barthou is reported to have stood his ground and to have told von Ribbentrop that Germany should make her arms requests to the disarmament conference where they would be carefully considered.

3. Italy and Germany will oppose the Franco-Russian idea of increasing the security of Europe by the conclusion of mutual assistance pacts. They will not contribute to the division of the continent into blocs of nations. This was the most definite agreement reached. There was no difficulty in arriving at an understanding because it is manifestly to the interest of both nations to prevent, if they can, an alliance between France, Russia and the Little Entente nations—Rumania, Czechoslovakia and Yugoslavia.

slavia. Mussolini does not want Italy to be placed permanently in a secondary position in Europe. He has dreams of domination and even of expansion in southern Europe which would be menaced seriously by the powerful combination of nations envisaged by France and Russia. And Hitler, of course, dreads the thought of a Franco-Russian alliance.

Even before he went to Venice, Hitler announced himself opposed to regional pacts. It is reported that a few hours before his departure, Maxim Litvinoff, Soviet commissar for foreign affairs, slipped into Berlin and proposed a treaty among Germany, Russia, Poland, Czechoslovakia, and perhaps the Baltic states, to insure peace in eastern Europe. It would be an eastern Locarno and would have the support of France. It is said that Litvinoff made this move because the project for a Franco-Russian alliance had been blocked by French obligations to Poland and by France's reluctance to join an alliance which might involve her in trouble in the Far East. France is pledged to help Poland if attacked, something which might result from a war between Russia and Germany. This hitch in the negotiations between France and Russia for an alliance is reputed to have led to the scheme of inviting Germany into an eastern Locarno. But Hitler would not consent, and France and Russia will have to make other plans.

Such is the outcome of the Hitler-Mussolini conversations in so far as it is known. It appears that the concessions were all on the German side and not on the Italian. If Hitler has agreed to abandon his cherished ambition to unite Austria and Germany, he has ceded something of primary importance. It was one of the cardinal points in the Nazi foreign policy, and it could not have been given up without a most impelling reason.

Nazi Tactics

This reason is to be found in the critical situation in which Germany has been placed under the leadership of the Nazis. When Hitler became chancellor last year he was recklessly overconfident. He thought that Germany could be swung easily into a position of power and leadership in Europe. He believed that this could be accomplished by aggressive tactics and without reference to the policies of other nations. Accordingly, the Nazis proceeded to offend every one around them. Germany had enjoyed the growing sympathy of Great Britain, but the ruthless suppression of Jews and other enemies of the Hitler régime quickly alienated sentiment among the British. France, while suspicious of Hitler, was disposed to consider concessions on the arms issue, but reports of secret armaments piling up in Germany led to a stiff

ening of the French attitude. Mussolini had been delighted and flattered by the manner in which Hitler endeavored to model his revolution after the Italian Fascist model, but he became hostile when the Nazis attempted to swallow Austria. Russia, after the war, had been Germany's best friend and was anxious to build up a firm relationship, but Hitler's treatment of Communists and his dreams of expansion toward the east, drove the Soviets into the arms of France.

Only with Poland could the Nazis point to improved relations. The ten-year non-aggression pact has disposed temporarily of the Polish Corridor issue. It was negotiated primarily to give Hitler a free hand in dealing with Austria. But he has met with defeat in his Austrian ambitions and consequently has gained nothing through his concession to Poland. There are, however, persistent rumors to the effect that Germany and Poland have a secret agreement through which they hope some day to profit territorially at the expense of Russia and the Baltics. But both the Poles and the Germans deny this, and there does not appear to be any basis for it. There is also talk of an accord between Germany and Japan, but neither can this be substantiated.

Germany Isolated

Germany, therefore, finds herself without friends in Europe. She is charged with responsibility for having disrupted the



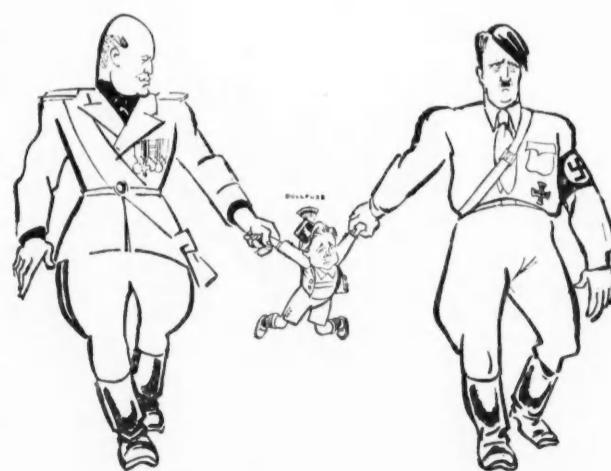
—By Derso and Kelen
PEACE: "HE LOVES ME . . . HE LOVES ME NOT . . . HE LOVES ME . . ."

in European affairs. The details of their projected alliance may have met with certain difficulties, but their friendship remains firm. They are seeking to surround Germany with a tight ring of allied nations which will insure against trouble in the future.

It was precisely this menace from France and Russia which is supposed to have caused Hitler to change his mind about his foreign policies. He is also said to have been called in and lectured by President von Hindenburg, who is more of a realist and who is known to be disappointed with Hitler's leadership. The German president is reported to be panic-stricken lest Germany be surrounded by enemies. He seems to have instilled some of his fears into Hitler, for things began to happen at once. Hitler sought out Mussolini. At the same time he sent von Ribbentrop to Paris to confer with Barthou. And also at the same time his minister of propaganda, Paul Joseph Goebbels, went to Poland to make further gestures of friendship. All this involved a decided change in the studied indifference of Germany to the policies of other nations.

But in order to win Mussolini's friendship, Hitler was obliged to give up Austria. That he was willing to do this shows how alarmed he had become. However, whether this concession will be really fruitful remains to be seen. Mussolini was not over-impressed with Hitler's grasp of European affairs. Hitler is a little too idealistic, too rashly minded, to suit the hard-headed Mussolini. But Il Duce will do what he can for Der Führer because it is to his own interest to do so—particularly if he can win a guaranty of Austrian independence in the bargain.

Goebbels and von Ribbentrop met with cool receptions in Poland and France, so altogether Hitler's attempt to soften the foreign attitude toward Germany has not met with outstanding success. He is assured of a certain amount of coöperation from Mussolini—at a price. But France is still adamant. The French are known to be biding their time, banking on a collapse of the Hitler régime due to Germany's difficult economic position. Hitler therefore, has tremendous difficulties to overcome—difficulties which would test the caliber of the most astute statesman.



A CARICATURE BY DERSO AND KELLEN

Franco-Russian Moves

The prospect of an armed Germany has so alarmed France and Russia that they have sought means of strengthening themselves. These two countries are now pursuing a policy of the closest collaboration

The Peek Report--A Lesson in Economics

(Concluded from page 1, column 4)

they have spent abroad for goods and services must be considered as American imports. In the vocabulary of the economist, these expenditures are in fact called "invisible imports." Treated similarly are the amounts which charitable institutions and other organizations have sent abroad. Mr. Peek reports that we have spent \$19,429,000,000 in this manner during the thirty-eight-year period. This means that our "favorable trade balance" is cut practically in two.

Invisible Exports

But that does not present a complete picture, either. Foreigners have paid additional sums of money to us. They have, for example, paid interest and dividends on their stocks and bonds which Americans have bought. They have paid shipping and freight charges to American companies. They have paid interest on the money they borrowed from the American government during and immediately after the war. All these charges, during the period covered by the Peek report, amount to \$26,461,000,000. While these expenditures have not been made in payment for American exports of goods, they are considered as "invisible exports" since we have sold services of one kind or another abroad. No account of our trade with the rest of the world is complete without due consideration to all these items, for they form a part of our international balance sheet.

Of course, we must also add to our imports the amounts we have paid in dividends and interest, freight and shipping services and other items, just as we had to add the tourist expenditures, for they, too, are "invisible imports."

Now, let us see just what the balance sheet shows when we add up all the figures, when we add all the items we have sold to the rest of the world and subtract from that total the items we have bought from foreign nations. Mr. Peek tells us that the two sides of the balance sheet are not equal. We have sold to foreigners much more than they have sold to us. They have been debtors to us as a nation. The difference in our favor between the debit side and the credit side of the ledger is \$22,645,000,000. This is the amount of our "favorable balance of trade" during the thirty-eight-year period.

But, it may be asked, if we have sold more to the rest of the world than we have bought from it, have we not as a nation reaped great benefits? Have we not made enormous profits from these transactions? It is generally assumed that we have, and that our great prosperity during the first three decades of the present century was due in part to this foreign commerce. In attempting to answer these questions definitely, however, we must see just what the results of these various transactions have been.

When nations carry on business with each other, certain important facts must be borne in mind. It must be remembered, for example, that nations cannot pay their bills with gold because the supply of that metal in each country is naturally limited. Each country must keep a reserve on hand to back up its currency. If the United States paid all its foreign bills in gold, the supply would be exhausted in the course of a year or so. And the United States is in a better position to pay its international debts in gold than any other country, for the supply of monetary gold in this country is greater than in any other country. No nation can ship out enough gold to pay for its imports without causing its currency to collapse.

Goods and Services

As a general rule, nations pay for their imports of goods and services with exports of goods and services. True, they do not literally exchange or trade goods for goods. We do not literally trade American wheat for Brazilian coffee, or American cotton for Japanese silk, or American machinery for Russian manganese. The process is not so simple as that. But in the opera-

tion of the international financial machinery, it practically amounts to the same thing. Let us assume, for example, that during a certain year we sell to Japan exactly as much as we buy from her. At the end of the year we owe her nothing and she owes us nothing. It would be utterly ridiculous for us to ship gold to Japan every time we bought some goods from her and then for Japan to turn around and send the gold back for purchases of American goods. The amounts owed and the amounts due will cancel each other. This is done by means of foreign exchange and a process of bookkeeping.

In order to simplify matters, let us consider what happens in the case of indi-

company in Paris. Another importing house has purchased \$5,000,000 worth of French wine. Both have gone to the bank in New York and have bought the French francs necessary to pay their bills. They have received bills of exchange, or drafts, on the Banque de France in Paris and have mailed them to the companies in France to which the money is owed.

Bills of Exchange

It is apparent that through this transaction the American bank owes the French bank \$10,000,000, for the bank in Paris will have to pay out the equivalent of that sum in francs when the two French companies bring in the bills of exchange to

country balance with the exports to that country, the record is clear at the end of the year. As we have already stated, payments for services are handled in the same manner. In other words, everything that is paid abroad, on whatever account, must be taken into consideration. If there is only a slight difference between what we owe and what we are owed, the difference can be settled by shipping gold. But when the difference between these totals is great, the shipment of gold is impossible for the reasons already mentioned.

We have already said that Mr. Peek reports that since 1896 foreign nations have bought much more from us than we have bought from them, in goods and services. They have owed us more than \$22,000,000,000. During that time, they have sent us about \$2,000,000,000 more gold than we have sent them. Then, of course, more than \$10,000,000,000 of the amount is represented by war debts. But even so, there is still an enormous gap between the two sides of the international balance sheet.

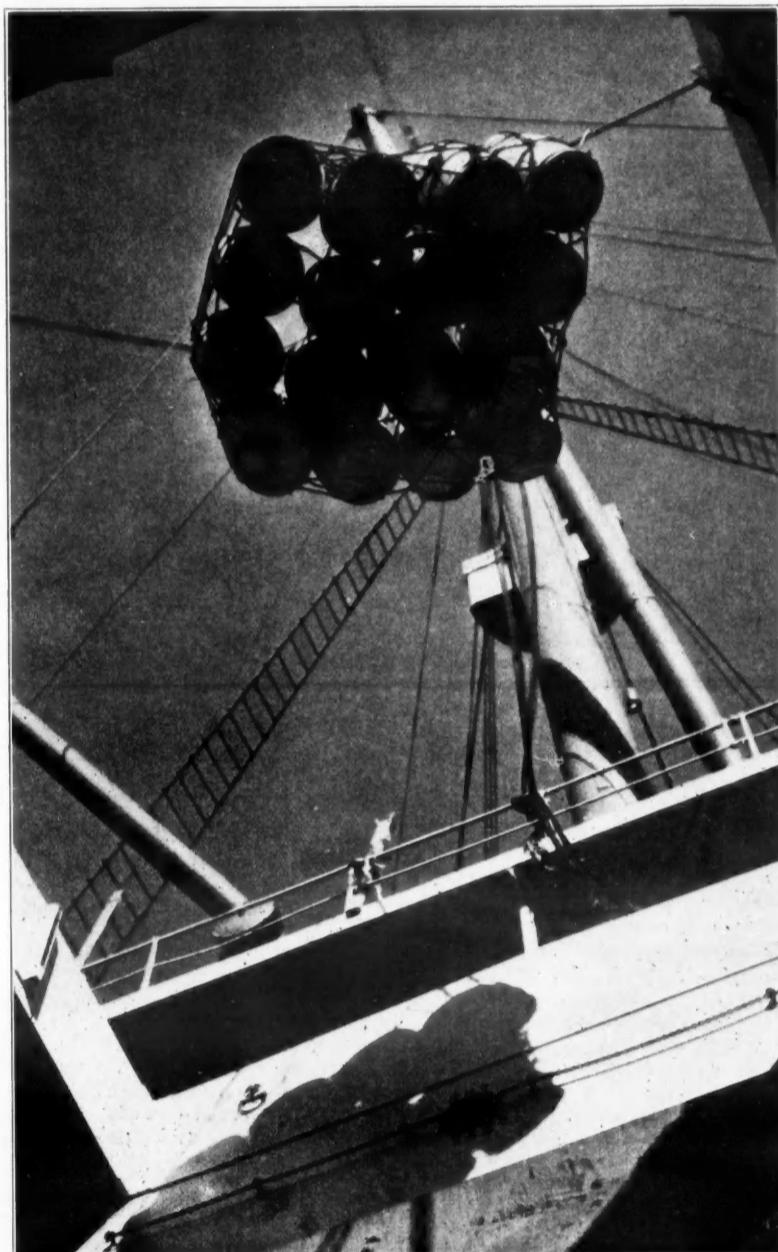
Borrowed Money

What have foreign nations done to make payment for this excess of purchases over sales? A hasty glance at Mr. Peek's figures reveals that they have borrowed the money. During that period, especially from 1915 to 1929, we lent gigantic sums of money to foreigners. Most of these loans were made in the form of investments. American citizens, by the thousands, bought bonds issued by foreigners. Many of these were bonds of private companies. Others were the bonds of city and national governments. If we include the war debts, the amount of American capital invested abroad is, according to Mr. Peek, more than \$24,000,000,000. From this total, however, must be deducted the amount of American bonds and other securities purchased by foreigners, which is about \$2,000,000,000. Thus, we see that the total indebtedness of foreigners to us is more than \$22,000,000,000, or the amount of our so-called "favorable balance of trade."

It can be seen from this brief analysis of the Peek report that we, as a nation, have been furnishing the money to foreigners with which to pay for the excess of our exports over imports. Our "favorable trade balance" has been sustained by means of American investments abroad. It is an extremely significant fact that when our loans abroad stopped in 1929, or practically stopped, there was an immediate dropping off in our exports to the rest of the world.

All of which means that there is but one way in which nations can in the long run pay for their purchases of goods and services from other nations. That is by the sale of goods and services of one kind or another. We have seen how smoothly a commercial transaction between American companies and French companies takes place when there is a balance between the purchases and sales. What happens in individual transactions happens in the aggregate of all our international commercial and financial transactions. But when there is no balance, as there has not been during the last thirty-eight years, nations have two alternative courses by which to settle the differences. They must either ship gold to cover the balance, or they must borrow the money to make payment. In the case of our own foreign trade, they have used both methods to the fullest possible degree.

If anything is to be learned from the Peek report, it is the fact that nations cannot possibly maintain an enormous "favorable trade balance" over a number of years without throwing the international economic machinery out of kilter. The debtor nations reach a point where, being unable to pay their obligations in goods and services, they must declare moratoria and default payment on their bonds and other securities. We have witnessed that on a large scale during the last three or four years.



© Ewing Galloway
BETWEEN 1896 AND 1933 THE UNITED STATES ACCUMULATED A FAVORABLE TRADE BALANCE AMOUNTING TO \$22,645,000,000.

vidual transactions in foreign trade. Let us suppose, for example, that a firm in Paris buys from a company in New York \$10,000,000 worth of typewriters. The French company, in order to pay for the typewriters, must obtain American dollars, for French francs are of no use to the company in New York. Consequently, its representative goes to a branch of the Banque de France, the central bank of France, and pays enough French francs to get the \$10,000,000. The company receives a bill of exchange, or draft, drawn on a bank in New York City, a member of the Federal Reserve system, mails it to the New York company, and the deal is closed.

But how could the French bank draw a check upon the bank in New York? Let us see what has happened on this side of the Atlantic a few days earlier. An American importer, let us say, has bought \$5,000,000 worth of French perfume from a

convert them into cash. On the books of the French bank will be entered a debit of \$10,000,000 against the American bank. But a few days later, as we have seen, the French company which has bought the American typewriters goes to the bank in Paris and asks for a bill of exchange for \$10,000,000 to be paid in New York. Thus, the French bank owes the American bank that amount of money. In this case, the French bank will credit the bank in New York with that sum, which will wipe out the previous debit of \$10,000,000. And the New York bank will enter a debit of \$10,000,000 against the bank in France, which will cancel the credit of that amount which had previously been entered there. No gold has been shipped. Only bills of exchange have been used to take care of the transactions.

That is the way in which international transactions are handled. It can be seen that when our imports from a certain



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A Record of the Government in Action



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the postmaster general full authority to conduct the air-mail service. Army Air Corps flew the mail. This act was generally considered to be the administration's worst blunder. While there is no doubt that many air mail contracts had been obtained by private lines through collusion and otherwise questionable methods, the guilty parties, it is argued, should have been punished without disrupting the entire air mail service.

The Air Mail Act of 1934. Returned the air mail service to private lines, but bids were accepted from only those companies which complied to rather stringent regulations as to organization and facilities. Also authorized the president to appoint a commission of five to make a study and to recommend to Congress not later than February 1, 1935, a broad policy covering all phases of aviation.

Bank Deposit Insurance Act. Extends for one year the temporary plan of deposit insurance, or until July 1, 1935. Provides that the amount eligible for insurance should be boosted from \$2,500 to \$5,000, beginning July 1, 1934. Bank deposit insurance has proved very successful thus far.

The Municipal Bankruptcy Act. Provides that municipalities may petition federal courts for readjustment of their debts if endorsed by fifty-one per cent of those to whom they are indebted. Many citizens holding municipal obligations would be willing to accept less on these obligations rather than to have to wait a number of years to be paid at all.

The Corporate Bankruptcy Act. Enables corporations to do the same thing that the above act permits municipalities to do. Both these acts contain the implication that it may be many years before investments are worth as much as they were before the crash. They aid investors to salvage what they can—and quickly.

The Communications Act. Provides for the creation of a Federal Communications Commission of seven members to assume regulatory power over the nation's interstate and foreign communications services—telegraph, telephone, cable and radio. Directs new commission to explore into the desirability of having Congress by statute set aside a certain portion of radio time for particular types of non-profit, non-advertising programs. Belief prevails that this may be the first step toward complete government control of the nation's communications services.

The Six Federal Crime Control Acts. Extends police power of federal government over interstate crime. Such legislation has been badly needed in order to combat the activities of roving criminals who are difficult to apprehend by local authorities.

The Housing Bill. Makes possible approximately \$3,000,000,000 of building and

remodeling of homes in this country. Seeks to provide new homes on long-term credit basis, to repair and make more livable existing homes, and to protect the invested savings of those who already own homes by promoting the long-term financing of home mortgages at low rates of interest so that these mortgages will not require renewal for a number of years to come. All funds will be made available through private institutions, but with government financial assistance and supervision. The bill is mainly designed to put back to work several million people in the industries related to residential construction. Competent authority, however, points out that less than 500,000 people, both directly and indirectly found employment in these industries during the height of the boom. Nevertheless, the bill may start the ball to rolling in the so-called heavy goods industries. Harry L. Hopkins is expected to administer the measure, signifying there is to be real action. It should be made clear that this is not a low-cost, slum-clearance housing project, reaching the lower-income wage earners.

Labor Disputes Joint Resolution. Authorizes the president to establish a board or boards to hold elections of employees in an atmosphere free from coercion, interference or restraint. Insures the right of workers to organize and to select their representatives for the purposes of collective bargaining as defined in Section 7-a of the NRA. This resolution does not go far enough toward checking company-dominated unions to satisfy labor leaders. It does not guarantee union recognition. However, if the Roosevelt-appointed labor boards are composed of capable persons they may prevent acute industrial strife during the next few months. The leftover Wagner labor bill provided more effective machinery for the settlement of labor disputes. Its passage next session will depend on developments between now and then.

Railroad Labor Bill. Railroad management is prevented from interfering in any manner whatsoever with employees joining or refusing to join any organization or union. The choice of representatives of any group of workers must be determined by a majority of workers voting on the question. Heretofore, railway workers have not been included under Section 7-a of the NRA. The bill is considered a striking blow at company-dominated unions.

Frazier-Lemke Farm Bankruptcy Bill. Designed to grant, under the bankruptcy powers of Congress, extension of time to distressed farmers for payment of their existing debts and mortgages and to permit them to retain possession of their property, under control of the courts, during a

six-year period of adjustment. Will impose hardship on banks, insurance companies, home loan associations and similar institutions holding farm mortgages and other forms of farm indebtedness. The bill's advocates maintain, however, that like assistance has been given by the government to these institutions.

The Arms Sale Resolution. Vests the president with authority to prohibit the sale of arms and munitions of war in the United States to countries engaged in armed conflict in the Chaco. First attempt to control traffic in armaments. Has been a failure thus far because of lack of cooperation on part of other nations. Pacifists hope it may lead to nationalization of war supplies.

Vinson Naval Parity Bill. Approved building the navy up to limits authorized by the Washington and London naval limitation treaties. This legislation was taken by some to sound a note of warning to Japan and other nations that the United States would not sit idly by while other nations engaged in a naval construction race.

The Revenue Act of 1934. Placed increased taxes on capital-stock, estates, gifts, income, reorganizations, partnerships. Shifted some of the burden formerly on small income taxpayers in the "earned income" class to those whose incomes come from "unearned" sources, such as dividends and tax-exempt securities. Plugged up various loopholes through which large income receivers had avoided paying taxes.

Loans to Industries Bill. Authorized direct loans to industries totaling \$580,000,000 to be supplied jointly by the Federal Reserve Banks and the Reconstruction Finance Corporation. The purpose is to extend financial aid to solvent industries unable to receive credit accommodations.

Milk Investigation Resolution. Provides for an investigation by the Federal Trade Commission of profits in milk sales and distribution throughout the country. The inquiry was proposed after it had been revealed that milk distributors in four American cities had made profits of more than \$10,000,000 during the depression.

Cuban Treaty. Abrogated the Platt Amendment which had been a source of constant friction between the United States and Cuba for several decades. The Cuban treaty denies the United States the right to intervene in Cuba's affairs in the future.

The Tydings-McDuffie Philippine Independence Act. Designed to bring about complete Philippine independence after a ten-year period. Requested the president to negotiate with other nations for the neutralization of the islands after independence is achieved. Many believe that this

act terminates economic relations between the Philippines and the United States too quickly—that the islands need a longer time to gain new markets for their products. The Philippine legislature, however, has accepted the measure.

Securities Exchange Act of 1934. Provides for the regulation of stock exchanges (exchanges on which shares of ownership in the nation's industries are bought and sold). The government is undertaking, through this act to curb excessive speculation and unethical practices for the protection of investors and in order to make American business sounder and more stable. It hopes to prevent a recurrence of the wild speculation which led to the stock market crashes in October of 1929 and July of last year. This measure also modifies the Securities Act of 1933 to meet certain severe criticisms of business and industry. A Securities and Exchange Commission of five members will administer the Stock Exchange Act. James Landis, member of the Federal Trade Commission and one of the authors of both the Stock Exchange Act and the Securities Act of 1933 is expected to be selected by President Roosevelt to head the new commission. His appointment would assure a forceful administration of the act.

The Reciprocal Tariff Act. Gives the president power for a period of three years to negotiate trade agreements with foreign governments without the consent of the Senate. May revive foreign trade somewhat.

Liquor Taxing Act. Designed to yield \$500,000,000 annually in revenue. However, Joseph H. Choate, Jr., director of the Federal Alcohol Control Commission, believes that liquor taxes are too high. Until they are reduced, he says, bootlegging will continue to flourish.

Gold Reserve Act. This act, which was approved January 30, authorized the president to revalue the dollar at 50 to 60 per cent of its then existing statutory gold equivalent. Created a \$2,000,000,000 stabilization fund out of the surplus which resulted from the devaluation of the dollar. Gave Treasury authority to spend fund as it deemed necessary for stabilizing the dollar abroad. Declared the coinage of gold at an end, the yellow metal to be held in bullion form in the Treasury as backing for paper currency. Turned over nation's entire monetary gold stocks to the Treasury. The Act was adopted primarily to raise prices, thereby lightening the burden of the debtor classes.

The Silver Purchase Act. Declares it to be the ultimate policy of the United States to maintain one-fourth of the value of the nation's monetary stocks in silver. While this act declares it the policy of the government to increase the amount of silver in our monetary stocks, it is not compulsory. This is also a price-raising measure.

Something to Think About

1. Why do you think Chancellor Hitler was willing to make concessions to Premier Mussolini on the Austrian question when union of Germany and Austria is one of the cardinal points of the Nazi program?

2. Why does Italy object to Austro-German union while not being opposed to a strong Germany? For what reason does Italy object to the projected alliance between France and Russia?

3. Explain briefly the success or lack of success of Nazi Germany in its dealings with (a) Russia; (b) France; (c) Poland; (d) Great Britain; (e) The Little Entente; (f) Austria.

4. What indications are there in recent European developments to indicate that Hitler is attempting to alter his foreign policy?

5. What, in your opinion, is the outstanding contribution of the Peek report on American foreign trade? How should it be used to govern the future commercial policy of the United States?

6. How have foreign nations, during the last thirty-eight years, paid for their excess of imports of goods and services over exports? Do you think it likely that all or most of the American investments abroad will be paid? Why?

7. Explain the process by which payment for goods in a foreign country is made.

8. What do you consider the outstanding characteristic of the activities of the Seventy-third Congress? Explain the statement: "The members of the Senate and the House have had the good sense to accept the only legislative leadership which was capable of quick and decisive action."

9. List the more important pieces of legislation enacted by the session which has just closed and define each as to "conservatism" and "liberalism."

10. What is the significance of von Papen's criticism of certain Nazi policies?

11. What reasons were recently given by the American Institute of Architects for the statement that housing should be a public utility?

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PRONUNCIATIONS: Il Duce (eel doo'chay), Theodor Habicht (tay-o-o-dor hah'beekt), Joachim von Ribbentrop (yo-ah-keem' fon ree'ben-trop), Louis Barthou (loo'ee bar-too'), Maxim Litvinoff (mack' seem lit-veen'off), Goebbel (gu'bels—u as in burn), Der Führer (dair fuer-er—u and e pronounced simultaneously).